



Richland County Council
Work Session – External Auditors
July 25, 2017 – 2:30 PM
Council Chambers

COUNCIL MEMBERS PRESENT: Joyce Dickerson, Chair; Bill Malinowski, Vice Chair; Jim Manning, Yvonne McBride, Paul Livingston, Calvin “Chip” Jackson, Greg Pearce and Gwen Kennedy

OTHERS PRESENT: Michelle Onley, Gerald Seals, Elizabeth McLean, Sandra Yudice, Stacey Hamm, Brandon Madden, James Hayes, and Kim Roberts

1. **CALL TO ORDER** – Ms. Dickerson called the meeting to order at approximately 4:00 p.m.
2. **AUDIT UPDATE** – Mr. Seals stated the process of auditing the books for FY16 is underway. The process will begin with the auditors speaking directly with County Council and allowing Council a chance to ask questions regarding the process that they will engage in and what they are looking for.

At the conclusion of the meeting, Mr. Seals will give an update on the response to the FY15 management letter.

Mr. Alan Robinson, Engagement Partner with Cherry Bekaert, gave a brief overview of the audit services provided by the firm and introduced his staff: Casey Minor, Audit Senior; Mary Peasley, Auditor Manager; and Dylan Miller, Intern.

- The audit is defined by the fact that we work for the Council and the auditor’s job is to audit management

Engagement Services

- Richland (Administrator and staff) are responsible for preparing the financial statements.
- The auditor assists with preparing the financial statements, but the auditor’s job is audit the financial statements
- Auditor will also assist with the typing and footnotes on the financial statement
- Single Audit Program Testing and Reporting. There are number of interested parties in the audit. One of which is the Federal Government. If the Federal Government provides grant funding, we are specifically required to test that and make sure we have spent that money in accordance with the Federal rules.
- Bookkeeping Assistance – due to transition in personnel.
- Non-recurring first year audit and Opening Balance Sheet procedures – Clean transition from the prior CPA firm.

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- The County is required by South Carolina law to have an audit prepared in accordance with Generally Accepted Auditing principles.
- The County must hire a CPA firm.
- If you receive Federal Grants and spend Federal dollars above a threshold, you have to have an audit.
- Bond holders/bond trustees will require an audit.

Auditor's Responsibility

- Required Guidance:
 - a. Generally Accepted Auditing Standards (GAAS)
 - b. Government Auditing Standards (GAS)
 - c. Auditor of Public Accounts' (APA) Specifications for Audits of Counties, Cities and Towns
 - d. Title 2 U. S. Code of Federal Regulations Parts 200 (Uniform Guidance)
- Consider internal control to the extent necessary to design an effective and efficient audit approach, not for the purpose of providing assurance on internal control (GAAS, GAS, Uniform Guidance)
- Perform tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts (GAS, APA)
- Perform tests on compliance with the types of compliance requirements which could have a direct and material effect on the County's major Federal financial assistance programs (Uniform Guidance)
- Design and implement audit procedures based on our understanding of the County to gain reasonable, not absolute, assurance as to the absence of material misstatements in the financial statements (GAAS)
- Opine on the financial statements based on our audit (GAAS)

Ms. McBride inquired about the following statement: "not for the purpose of providing assurance on internal control". Does this statement mean there could be issues with the internal controls or the auditor will not identify those internal controls?

Mr. Robinson stated the auditors gain an understanding of the internal controls to help with planning the audit, so they understand the County. As they go through that they are going to develop findings. They will communicate any findings they have, but that is not the focus. The focus is to audit the financial statements themselves. An audit of internal controls is different. Wherein the auditors would come in and do just a study of internal controls.

If there are any major findings, those findings will be brought forward immediately. Any findings will be communicated to Mr. Seals and he will be required to respond to those findings.

Planned Scope and Timing of the Audit

- An audit includes examining evidence supporting the amount and disclosures in the financial statements:

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- a. Our audit will involve judgment about the number of transactions to be examined and the areas to be tested.
 - b. Our audit will include obtaining an understanding of the entity and its environment, including external control, sufficient to assess the risk of material misstatement and to design the nature, timing and extent of further audit procedures
 - c. Material misstatements may result from:
 - 1. Errors
 - 2. Fraudulent financial reporting
 - 3. Misappropriation of assets
 - 4. Violations of laws or governmental regulations
 - d. We will generally communicate our significant findings at the conclusion of the audit
 - e. We will also communicate any internal control related matters that are required to be communicated under professional standards
- Our audit approach includes obtaining an understanding of:
 - a. The County's business environment
 - b. Internal control and its component elements to assess:
 - 1. The effectiveness and efficiency of operations,
 - 2. Reliability of financial reporting, and
 - 3. Compliance with applicable laws and regulations
 - c. Significant changes to the County's information systems
 - d. Fraud risk factors within the County which may be indicative of either fraudulent financial reporting or misappropriation of assets
 - 1. Private conversations will be held with members of Mr. Seals staff
 - We will provide written communication of our significant findings, if any, at the conclusion of the audit.

Mr. Livingston inquired about the following statement: "Our audit will involve judgment about the number of transactions to be examined and the areas to be tested." How do you make that judgment? Is that judgment involve any feedback from Council members or someone else?

Mr. Robinson stated it is a statistical model. There are some areas where they do a 100%. For example, they download the entire general ledger of the County and do certain data analytics to look for certain indicators. Other areas, will be sampled. Accounts Payable is a prime example.

Mr. Livingston inquired if the transactions that are looked at are influenced by the Councilmembers or the Administrator.

Mr. Robinson stated he needed the input of Council. If inputs are given he needs to look into, then he will have to consider that input. When it comes down to him pulling a sample of 100 invoices, those have to be done randomly. There is statistical methodology that are followed.

Mr. Malinowski inquired if it is possible that if someone is good enough that is doing the books the auditors may not notice some things and the County still get an in compliance rating even if the books are screwed up.

Mr. Robinson stated they go to lengths to make sure that does not happen, but they operate under reasonable assurance and not absolute assurance.

Mr. Malinowski inquired as to what an insignificant finding would entail.

Mr. Robinson stated his team has been trained to write down everything they encounter. If a vendor was paid in 32 days instead of 29 days he likely would not bring that Council. There is a scale of the seriousness of findings. The worst of which is a material weakness. They are required to tell Council about a material weakness. The next level down would be a significant deficiency. Then the third level would be recommendations. (i.e. supplies disappearing – suggest lock)

Materiality:

- We use samples
- We use a concept called “reasonable assurance”
- There is a different setting for all the areas of the County

Generally an audit would begin in late April, but due to the transition there was a late start this year. Therefore, the timeline is as follows:

Task	Timing
County Preliminary Audit	July/August
County Final Field Work	October/November
County Audit Opinion Issued	December/January

Those dates will move up about 2-3 months the following year. Ideally, the completion date should be prior to Thanksgiving.

Significant Audit Areas

****Based on the preliminary risk assessment, the following significant audit areas and audit test work will include the following:**

- Cash Investments:
 1. Understand controls in place over cash/investments
 2. Confirm a sample of bank balances at June 30
 3. Review reconciliations and agree to summary of balance
 4. Test of controls over cash disbursements
- Revenue and Receivables:
 1. Understand controls in place over revenues and receivables
 2. Confirm balances with the State and analytically test revenues, including property tax

- revenue (e.g., budget vs. actual)
- 3. Test the collectability of receivables
- 4. Test controls over taxes

- Capital Assets:
 - 1. Understand controls in place over capital assets
 - 2. Roll forward capital assets, test additions and reductions, review Construction in Progress activity and perform predictive analytics

- Debt and Debt Services Expenditures:
 - 1. Understand controls in place over debt
 - 2. Roll forward long-term debt schedule
 - 3. Confirm additions
 - 4. Analytically test interest expense
 - 5. Review debt covenants

- Payroll and Related Liabilities:
 - 1. Understand and test controls in place over payroll
 - 2. Analytically test payroll expense and compensated absences liabilities
 - 3. Test underlying data utilized in actuarial calculations
 - 4. Review actuarial assumptions related to OPEBs
 - 5. Review GASB 68 pension disclosures and required supplementary information

- Financial Reporting:
 - 1. Review journal entries to ensure Net Position and Fund Balance are properly classified and disclosed
 - 2. Review account groupings and disclosures for the financial statements
 - 3. Review of new GASB requirements for applicability and proper implementation

- Single Audit Program Testing and Reporting:
 - 1. Test internal controls over major program administration
 - 2. Test compliance with applicable compliance requirements (e.g., allowable costs, cash management and reporting)

Fraud Risk Inquiry

- Speak with representatives from governance
- Speak with Council members (1-2) about their concerns with regards to fraud
- Speak with County staff to see if they have any concerns

Ms. Dickerson expressed her concern with not including all of the Councilmembers in the dialogue between Council and the auditors.

Ms. Minor outlined the questions typical of the fraud interviews.

1. Understanding of how you feel about the internal controls at the County. Whether they are doing a good job. Are there certain areas you feel are weaker than others that are more susceptible to fraud?
2. How you feel about the ethical environment. Do you feel like the County does a good job of communicating to the employees what is expected of them? Does management do a good job of leading by example with the ethical behavior?
3. Are you aware of any suspected or actual fraud? As well as, noncompliance with laws and regulations.
 - Identify and understand the factors that can lead to fraudulent financial reporting
 - Assess risk of fraudulent financial reporting
 - Design and implement internal controls for prevention or detection
 - Statement on Auditing Standards (AU Section 316), *Consideration of Fraud in a Financial Statement Audit*, establishes and provides guidance to auditors to assess that the financial statements are not materially misstated due to fraud
 - Management is responsible for implementing systems that prevent fraud

New Accounting and Reporting Changes

- GASB Statement No. 77 – Tax Abatement Disclosures
 - Disclosure guidance for governments that have granted tax abatements (an agreement between a government and a taxpayer in which the government promises to forgo tax revenues and the taxpayer promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens).
 - In the past, this was looked at a high level.
 - Individual companies will not be disclosed.
 - Bond holders use the information to compare counties and issue bond ratings based on the information.
- GASB Statement No. 80 – Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14
 - The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining whether Certain Organizations are Component Units.
- GASB Statement No. 78 – Pensions Provided through certain Multiple-Employer Defined Benefit Pension Plans

- To address a practice issue regarding the scope and applicability of GASB Statement No. 68 associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.
- GASB Statement No. 75 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68
 - Addresses accounting and financial reporting for OPEB that is provided by governmental employers. This statement also establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions required to be used to project payments and attribute present value to periods of employee service. Note disclosure and required supplementary information requirements are also addressed.
- GASB Statement No. 81 – Irrevocable Split-Interest Agreements
 - Requires governments that receives resources pursuant to an irrevocable split-interest agreement to (1) recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement, (2) recognize assets representing its beneficial interest in irrevocable split-interest agreements that are administered by a third party and (3) to recognize revenue when the resources become applicable to the reporting period.
- GASB Statement No. 82 – Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73
 - Addresses certain issues within GASB Statements 67, 68, and 73, specifically, (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.
- GASB Statement No. 85 – Omnibus 2017
 - Address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).
- GASB Statement No. 86 – Certain Debt Extinguishment Issues
 - Addressed accounting and financial reporting for in-substance defeasance of debt in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt as well as accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

- GASB Statements No. 83 – Certain Asset Retirement Obligations
 - Establishes criteria for determining and timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations

- GASB Statement No. 84 – Fiduciary Activities
 - Establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activity.

- GASB Statement No. 87 – Leases
 - Classifies leases as financing arrangements that give the customer the right to use the leased asset. The standard requires governments that are lessees to report a liability for the contract and an intangible asset representing the right to use the leased item. Governments that are lessors have to recognize a receivable for the lease and a deferred receipt of payments or other compensation for the asset covered by the contract.

Mr. Livingston inquired as to what the next step is after the preliminary testing and review has been completed. Does the auditor go back to the Administrator to address questions?

Mr. Robinson stated the preliminary round is when the auditors make their assessments and understand the internal controls. Then they begin pulling invoices and looking at detailed transactions. When something is found in the audit, and there is always something found during an audit, the auditors will work to resolve it. If it is something minor it will be cleared up (i.e. paid \$1,001 instead of \$1,000) but if it is an ongoing error or significant then the auditors are going to write it up. If the error is large enough the auditors will take it to Mr. Seals. If it is an urgent error then the auditors will notify the Council Chair.

Mr. Livingston inquired what happens if the auditors present the draft report and the Administrator or Council says this is something you should have looked at. Would they go back and look at it?

Mr. Robinson stated he would go back and look at the matter.

Mr. Pearce requested the plan the County put into effect to address the GASB 45 (Pensions) is working properly and is consistent.

Mr. C. Jackson stated given the County's financial history and the nature in which the audit firm was engaged, he believes the concern of only meeting with the Chair with issues that are alarming or significant may be something that needs to be rethought. He further inquired as to what the bookkeeping assistance of the audit firm would entail.

Mr. Robinson stated it is not unusual with personnel turnover and the exit of experience and/or institutional knowledge to provide assistance.

Ms. Dickerson reiterated that she would prefer if anything needs to be addressed to have it presented to

full Council at a Council meeting during Executive Session.

Ms. McBride inquired if Mr. Seals or Council have questions or concerns regarding the draft report, how would that process work?

Mr. Robinson stated if there are any questions or concerns to the written draft report, Council or staff could provide additional input either verbally or in writing.

3. **ADJOURN** – The meeting adjourned at approximately 5:00 p.m.